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NSC BRIEFING

INDIAN ECONOMIC SITUATION

- I. Whether or not India can make rapid enough economic progress to provide for its 410,000,000 people has been a matter of growing concern to the Western world in recent years.
 - A. Indian leaders are also becoming increasingly concerned with this, and are now engaged in a major study of India's past economic progress as well as future needs in order to enable them to set the goals of the Third Five-Year Plan (1961-66).
 - B. They are also concerned over Chinese Communist rate of economic growth--other Asian countries watching with interest "competition" between Indian and Chinese methods of raising economy by its bootstraps.
 1. China's economy grew by about six percent a year compared to four percent annually for India from 1951 through 1957, and China's rate of growth under the 1958 "great leap forward" program has at least temporarily increased.
 2. Indian leaders, who are aware that India's economy is unlikely to grow as rapidly as China's, believe they must carry out an ambitious third plan, lest India's growth fall dangerously behind China's.
 - C. While they are pleased with the one-third increase in national income achieved since 1950, they are worried that the momentum of economic growth achieved during the First Five-Year Plan (1951-56) may be slowing down.

II. The principal aim of the first plan was to raise agricultural production enough to make India self-sufficient in food.

A. The first plan called for spending \$7.5 billion. Aided by good monsoons it successfully raised national income by about 18 percent, even though it reached only \$6.7 billion.

1. Of this, only about \$450 million came from foreign aid, all from free world.

III. Encouraged by the results of their initial efforts, Indian leaders adopted a much more ambitious Second Five-Year Plan (1956-61), which emphasized basic industry--coal, power, iron and steel, and cement.

A. The plan called for spending \$15 billion and was dependent on receipt of \$1.7 billion in foreign aid.

1. Declining exports, higher import costs, and rising defense costs more than doubled the amount of foreign aid required.

B. Despite receipt of nearly \$3 billion in foreign aid since 1956--ten percent of it from Soviet bloc--and reduction of sterling balances by over \$1 billion, the plan has had to be cut twice. Now it looks as though not more than 90 percent of the original plan will have been carried out by 1961.

C. National income is unlikely to increase any faster than it did under the less expensive first plan--partly due to less favorably monsoons.

D. Unemployment, particularly among the educated, continues to increase.

E. The rate of population growth has increased to about two percent a year--now about 8,000,000--which makes it difficult to maintain adequate food supplies.

F. One encouraging development is that the private sector of the economy, is likely to carry out its one-third share of the second plan as it did during the first plan.

1. A growing proportion of the Indian business community now thinks in terms of long-term investments and profits rather than short-term trading profits.

IV. Despite lack of funds to carry out all of the second plan, India is drafting an even larger third plan (1961-66).

A. Present Indian thinking envisages a plan costing between \$19 and \$24 billion.

1. B. K. Nehru, India's roving economic ambassador, this spring told Washington officials India would require \$1 billion annually in foreign aid for the third plan.
2. Nehru's estimate appears conservative, as a plan this size probably would require as much as \$1.5 billion annually in foreign aid.
3. A high-level Indian economic mission is now in Moscow seeking Soviet aid of \$735,000,000 for a dozen projects, apparently in support of the third plan.

V. Having emphasized agriculture in First Plan and industry in Second, Indian leaders hope in third to push both at once.

A. The return of food shortages in the past few years has convinced them that increased emphasis must again be placed on agriculture.

1. Nehru has launched a major effort to shake the Indian villages out of their age-old caste-ridden ways.
2. Marketing and credit cooperatives are to be set up throughout India to provide incentives for the peasants by breaking the hold of the moneylenders and village traders.

- B. The third plan also calls for the steady growth of basic industry and the development of a machine building industry large enough to enable India to make most of its own machinery.

VI. The successful completion of such an ambitious plan would accomplish two things.

- A. It would provide India with a much better balanced economy, approaching the point of self-generating economic growth.
- B. It would substantially increase the confidence of the Indian people that the modernization of India is possible under democratic methods and leadership.

VII. However, the successful completion of such an ambitious plan would not in itself ensure that India would carry on as a united and democratic nation.

- A. Divisive forces of caste, language and regionalism would continue to be serious threats to India's unity and progress.
- B. The decline in vigor and popularity of the Congress Party probably would continue, and a period of increased political instability, particularly after Nehru's departure, is likely.
- C. The standard of living would still be very low and it would require many more years of economic growth before adequate living standards would be attained.